

JOHN F. KERRY, MASSACHUSETTS, CHAIRMAN
CHRISTOPHER S. BOND, MISSOURI, RANKING MEMBER

CARL LEVIN, MICHIGAN
TOM HARKIN, IOWA
JOSEPH I. LIEBERMAN, CONNECTICUT
PAUL D. WELLSTONE, MINNESOTA
MAX CLELAND, GEORGIA
MARY LANDRIEU, LOUISIANA
JOHN EDWARDS, NORTH CAROLINA
MARIA CANTWELL, WASHINGTON
JEAN CARNAHAN, MISSOURI

CONRAD BURNS, MONTANA
ROBERT F. BENNETT, UTAH
OLYMPIA J. SNOWE, MAINE
MICHAEL ENZI, WYOMING
PETER G. FITZGERALD, ILLINOIS
MIKE CRAPO, IDAHO
GEORGE ALLEN, VIRGINIA
JOHN ENSIGN, NEVADA

PATRICIA R. FORBES, MAJORITY STAFF DIRECTOR AND CHIEF COUNSEL
EMILIA DiSANTO, REPUBLICAN STAFF DIRECTOR

United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
WASHINGTON, DC 20510-6350

October 2, 2001

The Honorable Charles O. Rossotti
Commissioner
Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, DC 20224

Mr. Joseph Kehoe
Commissioner
Small Business/Self-Employed Division
Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, DC 20224

Dear Commissioners Rossotti and Kehoe:

The Treasury Inspector General for Tax Administration (TIGTA) recently issued a report on the complexity of the Internal Revenue Service's (IRS) requirements concerning the estimated-tax penalty and the burden they impose on taxpayers. This report, entitled "The Internal Revenue Service Has An Opportunity to Relieve Considerable Taxpayer Burden Involving the Estimated Tax Penalty" (Reference Number: 2001-30-164), concludes that taxpayers in 1999 unnecessarily spent 1.87 million hours to satisfy their obligation with respect to the estimated-tax penalty.

A significant source of this complexity and burden is the IRS' Form 2210, Underpayment of Estimated Tax by Individuals, Estates and Trusts, which provides a short method and regular method for calculating the estimated-tax penalty. The TIGTA report only focuses on taxpayers using the "short method," which pertains mainly to taxpayers with fixed and foreseeable incomes. TIGTA concluded that taxpayers could have avoided filing an estimated 1.84 million Forms 2210. According to the report, "These taxpayers did not receive any specific benefit for their efforts and only duplicated calculations that the IRS' normal processing procedures would have performed anyway." As a result, TIGTA estimates that these taxpayers unnecessarily spent \$49.6 million on tax compliance. (This estimate assumes that a taxpayer's cost per hour of tax-compliance burden is \$26.50, which I believe is substantially too low, especially in light of the growing number of taxpayers who pay a professional tax preparer at a significantly higher cost per hour to complete these tasks).

Since most small business owners are forced to use the "regular method" to complete Form 2210, I can only imagine the enormous burden, both in terms of time and money, that this form represents for these taxpayers. In fact, according to the average time estimates set out in the

The Honorable Charles O. Rossotti
Mr. Joseph Kehoe
Page 2

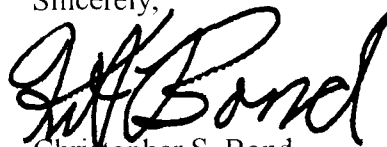
instructions to Form 2210, the IRS expects that small business taxpayers will spend nearly 400% more time on this form than taxpayers who can take advantage of the short method. That is valuable time taken away from the taxpayer's business for those who try to figure the form out for themselves. And for those who hire a professional tax preparer to handle this complex matter, it translates into scarce dollars spent on tax compliance that could be reinvested in the business and put to more productive use.

Following the Small Business Committee's April 1999 hearing on the tax filing and reporting burdens facing small businesses, I initiated the IRS Paperwork Unpopularity Poll to collect information about the IRS forms and other publications most in need of common-sense review and revision. Not surprisingly, a number of the participants identified Form 2210 as a form in dire need of attention.

Since this form has not been revised since 1986, I urge you to heed the advice of our small business constituents and implement the recommendations of the TIGTA report to "Evaluate the design and clarity of Form 2210 and its instructions in order to alleviate the excess taxpayer burden." In addition, please ensure that this review covers both the short and regular method for completing Form 2210.

Thank you for looking into this matter. As always, I appreciate your efforts to modernize the IRS and streamline our tax system so that taxpayers can meet their tax obligations in the least burdensome manner possible. If you have any questions or would like to discuss this matter in greater detail, please do not hesitate to contact me or have your staff contact Mark Warren, the Committee's Tax Counsel, at 202/224-

Sincerely,

A handwritten signature in black ink, appearing to read "Chris Bond", written in a cursive, flowing style.

Christopher S. Bond
Ranking Member